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Examines the future of *prepaid wireless* communication *services* in the United States. Misconceptions about *prepaid wireless* offerings; Factors that are expected to boost *prepaid* billing opportunities in the U. S. market; *Prepaid services'* creation of an opportunity for carriers to react rapidly to changing demographics and calling patterns; Benefits of *prepaid wireless services* for customers.

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## THE FUTURE OF *PREPAID SERVICES*

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### Section: Special Report: *Prepaid*

#### What solutions will prevent customers from straying?

While Europe, Latin America and Asia have embraced ***prepaid wireless*** as the preferred financial model for ***wireless*** carriers, the US market has been slow to adopt ***prepaid services***. US carriers have traditionally viewed ***prepaid*** services as a necessary evil and a service that appeals primarily to the "credit-challenged," who are not seen as a viable revenue generating demographic. With postpaid ***wireless services*** reaching a 50% saturation point, the face of ***prepaid*** is changing in the US. New technologies have solved many of the problems commonly associated with ***prepaid*** offerings, and these advances warrant a fresh, strategic look at ***prepaid*** billing opportunities in the US market.

#### [Dispelling the myths](#)

The most prevalent assumption in the US market is that ***prepaid*** offerings are primarily for the credit-challenged. However, in competitive ***wireless*** markets, ***prepaid*** can enable carriers to go after new market segments and offer plans that fit the special needs of their customers. ***Prepaid services*** are attractive to cost-conscious customers such as the youth/college market, immigrants (especially in border states), parents with children on their plans, and small businesses.

For example, parents who would like to control the spending power of their teenagers can add them to the family plan in a ***prepaid*** capacity to ensure they will not go over a desired limit. Carriers can offer ***services*** targeted to small businesses that can benefit from a ***prepaid*** service as well because it allows them to avoid lengthy contracts, gives them the flexibility of a month to month service, and automatically gauges the individual usage of multiple employees. ***Prepaid services*** allow the customer to take control over their ***wireless*** spending and manage their accounts.

Today, some financial analysts and carders are slow to change their attitude about the typical profile of a ***prepaid*** customer as well as the association between ***prepaid*** and chum. Aggressively marketed ***prepaid services*** can combat customer chum and ultimately help carders attract and retain customers.

Premiere ***prepaid*** billing systems have the foundation of a real-time rating engine, so carders benefit from a system that allows them to react rapidly to changing demographics and calling patterns.

Carriers can even execute targeted, one-to-one marketing programs that keep each customer informed with up to date messages about their account options, thus enhancing the carrier/customer relationship. For example, the carrier can see in real-time that a customer is coming close to their spending limit for a time period. They can then send a message directly to that customer, or group of customers, detailing their account balance and different rate options and/or promotions that may help the customer use their remaining funds for that time period more efficiently.

In addition, carriers that implement real-time billing systems, such as those based on the emerging WIN II standard can combat chum by marketing new programs and promotions in real-time. Unlike the handset-based systems, with ***prepaid*** billing systems the carrier does not need to update or distribute any new hardware to change ***services*** or promotions provided to the customer. Many skeptics predict that ***prepaid services*** will never take off in the US because they have a higher price per minute for the user. It is true that when deploying a ***prepaid*** system, some US carriers with older, trunk-based systems may incur high ranking costs, when adding new customers, which are then passed on to the customer. However, an SST-based platform is much more adaptable and efficient when implementing a ***prepaid*** business model.

Also, because ***prepaid*** options were seen as a "necessary evil" rather than a viable way to increase revenue, many carriers enlisted service bureaus to deploy their ***prepaid services***. This was an ideal way for the carrier to get their ***prepaid*** billing systems up and running quickly, without making a major capital investment.

However, these outdated service bureaus increased the cost of ***prepaid services*** for the carrier, and ultimately for the customer as well, because the service bureaus charge on a per-minute or per-subscriber basis. As the wireless market reaches a 50% saturation point in the US, carriers will quickly see that ***prepaid services*** can meet customer demands and they will have to begin looking at their ***prepaid services*** more cost-consciously.

Today's **prepaid** service bureaus might be a practical solution for small to midsize carriers. However, in order for **prepaid services** to reach their full potential for large carriers, a scalable, cost-effective, WIN-based software solution must be considered.

In the growing prepaid environment, more and more large carriers will take steps to deploy their own **prepaid** systems, rather than relying on outdated service bureaus. The type of **prepaid** system the carrier chooses will determine their success in meeting their subscribers' demand.

**Prepaid services** lower the carrier's cost of doing business by eliminating customer service and administration costs of monthly billing statements and collections associated with outdated billing systems.

In addition to the type of **prepaid** billing system they choose, carriers need to reexamine the subsidization of the cost of **wireless** phones. Unlike European, Latin American and Asian providers, US **wireless** carders include the cost of the phone with each new subscriber, whether they are post or **prepaid**. They add the extra costs to **prepaid** subscribers by subtracting designated amounts from their balance each month. By learning from international carriers, and requiring the subscriber to purchase their own phone at its face value, US carders can decrease the price of **prepaid services** and simplify the process significantly.

Another misconception about **prepaid** billing is that the phone cards, themselves, cause management and inventory complications. Today, the cost savings for carriers with **prepaid** systems far out-weighs the relatively insignificant cost of phone card inventory and management. Also, as mCommerce becomes a reality, the disbursement of phone cards is rapidly changing.

The most advanced **prepaid** billing systems offer ways to replenish **prepaid** accounts, card-free, from any WAP phone or PC via the Internet. This further reduces customer service costs for the carriers as customers can check their balances, replenish their accounts and see call histories via their phone or PC at any time.

Prepayment also means that the carrier will not incur bad debt from their negligent subscribers. In addition, the carrier can take advantage of the "float", and begin making money on the prepayments as soon as they come in. As the carrier receives payment earlier than in postpaid systems, they can reinvest the pooled funds. The carrier is also less exposed to fraud as top **prepaid** systems process the call and bill in real-time so the subscriber cannot use more than their purchased amount of time. These advantages cut the operating costs for the carrier and therefore the cost to the customer can be less.

Finally, with the emergence of the WIN II standard, **prepaid** subscribers will be able to roam in a mixed infrastructure environment. As more and more of today's **wireless** subscribers increase their travel and conduct mCommerce (mobile e-commerce) via their WAP-enabled phones, they will demand that they be able to connect for voice as well as data from any location.

The WIN II standard makes billing support for this and most of the enhanced **services** that subscribers enjoy with their post-paid accounts, such as call waiting and three-way calling, possible.

#### A key differentiating service

With the subscriber saturation point at nearly 50% and **wireless** competition high, carriers need to look at adding **services** to their arsenal that help differentiate themselves while turning a profit. **Prepaid services** offer the ability to reach new market segments in addition to the postpaid market.

Also, the real-time rating engine of top **prepaid** systems enables carriers to meet the increasing demand for mobile commerce (mCommerce) applications. The first step in today's **wireless** market is for carriers to look for ways to reduce the cost and add customizable features to their **prepaid services**. For this, carriers will need to purchase billing systems that provide flexibility, scalability, and, above all, a real-time rating engine which is the first requirement for any future-based system.

With the new specifications for the WIN II standard being released, a **prepaid** system based on WIN architecture is the second key requirement a carrier should look for in a billing system. WIN-based systems support rapid **prepaid** subscriber growth, unlike adjunct switch-based platforms.

New **services** can be introduced more quickly because service logic and subscriber data are centralized rather than distributed in all the mobile switching centers in the carrier's network.

Different manufacturers will adopt the WIN standard at different rates, so it is also important for the billing system to be able to communicate with PreWIN and proprietary platforms during the interim phase. Yet the advantages of using WIN architecture to add functionality to the **prepaid** system now far out-weighs waiting for the manufacturers to catch up to the technology.

In addition, the carrier's **prepaid** system must provide subscribers with the ability to conduct mCommerce transactions. Customers will be looking for **prepaid** offerings that allow them to make secure, low-cost transactions in a convenient manner. Most **prepaid**

billing systems' real-time rating engines make real-time commerce through **wireless** Internet links possible. This gives the customer the ability to access news, weather and sports updates or the ability to shop online via their WAP-enabled phones.

In essence, with the future of **prepaid services** looking bright, carriers need to launch profitable **prepaid** systems that can enable them to offer -- and bill for -- cutting-edge, value-added **services**. Carriers must take a hard look at the billing system and address key challenges during the planning and implementation to create a **prepaid** service that can make them money and satisfy subscriber demands.

GRAPH: Reasons for changing service providers. Source: Dataquest (February 1999).

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